

# Office of the Comptroller Directive No. 2-05

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**Attachment 26**, Internal Control Statement

**Attachment 27**, Adjustments

**Attachment 28**, Report of Financial Condition

**Attachment 29**, Supplemental Information – Revision Control Log

**Attachment 30**, Restricted Net Assets

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# Office of the Comptroller Directive No. 2-05

## Directive Compliance Guidelines for State Agencies

### Introduction

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**Subject**

The Directive addresses State agencies' responsibilities for submitting financial statement templates and other financial information to the Department of Accounts (DOA).

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**Purpose**

To provide guidance to State agencies for submitting the following items to DOA to assist in the preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR):

- Financial statement templates (Attachments 8-12)
- Other attachments
- Supplemental information

Financial statement templates (Attachments 8-12), other attachments, and supplemental information must be prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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**Agency compliance**

Agencies are required pursuant to Section 2.2-803 and Section 2.2-813 of the *Code of Virginia* (1950), as amended, to submit financial statement templates and / or other financial information for the following reasons:

- The financial information required by this Directive is necessary for DOA to prepare the CAFR.
  - The bond rating agencies use the CAFR to determine Virginia's bond rating. Maintaining an unqualified opinion on the CAFR is critical to Virginia retaining its AAA bond rating.
  - The bond rating agencies require that parts of the CAFR be included in bond offering statements.
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## Introduction, Continued

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### Applicability

This Directive applies to **all State agencies**.

**Exemption** – This Directive does **not** apply to those **commissions** and **boards** that receive one annual appropriation disbursement from the Commonwealth.

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### Policy

For year-end closing, financial statement template, other attachment, and supplemental information preparation, all State agencies must comply with the following guidelines. These are described in detail on the following pages:

- Reconciliation to CARS
  - Preparation of Attachments
  - Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12)
  - GASBS No. 33 – Nonexchange Transactions Overview
  - GASBS No. 34 – Financial Reporting Model Overview
  - Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates
  - Supplemental Information
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### Effective date

The Directive is effective for the fiscal year ended June 30, 2005, and thereafter. This Directive rescinds and replaces Office of the Comptroller Directive No. 2-04, *Financial Statement Preparation for State Agencies*.

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### Exceptions to due dates

If the agency cannot meet the due dates because of an unanticipated emergency, the chief fiscal officer must submit an E-mail request for exception to Ron Necessary, Director of Financial Reporting. This request must be submitted 30 days prior to the deadline. See the **Questions** section of this Directive for contact information.

Requests must include a detailed explanation of the reason for the request and an action plan with intermediate due dates to ensure timely submission of the required information.

Any exception granted by DOA requires DOA to adjust the deadlines with both the Auditor of Public Accounts (APA) and others, while still meeting *Code of Virginia* compliance deadlines.

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## Introduction, Continued

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<b>Failure to comply</b>	If an agency fails to comply with the requirements of this Directive, the Comptroller will disclose such failure in the <i>Quarterly Report on Statewide Financial Management and Compliance</i> .
<b>Directive availability</b>	This Directive is available at <a href="http://www.doa.virginia.gov">www.doa.virginia.gov</a> . Fiscal officers and agency contacts are notified via E-mails. The Commonwealth Accounting and Reporting System (CARS) users are notified via the CARS Broadcast Screen.
<b>Questions</b>	<p>Jamie Motley Assistant Director, Financial Reporting Voice: (804) 225-2646 Fax: (804) 225-2646 E-mail: <a href="mailto:jamie.motley@doa.virginia.gov">jamie.motley@doa.virginia.gov</a></p> <p>Ronald D. Necessary Director, Financial Reporting Voice: (804) 225-2380 Fax: (804) 225-2430 E-mail: <a href="mailto:ron.necessary@doa.virginia.gov">ron.necessary@doa.virginia.gov</a></p>
<b>Submission information</b>	<p>Except as noted on specific attachments, DOA <b>requires</b> the agency to E-mail financial statement templates (Attachments 8-12), other attachments, and / or supplemental information to: <a href="mailto:finrept@doa.virginia.gov">finrept@doa.virginia.gov</a>. DOA will E-mail a confirmation of receipt for each electronic submission. Agencies should follow up with DOA if the agency does not receive a confirmation. <b>Agencies should not submit paper copies of E-mailed attachments.</b></p> <p>DOA will also notify agencies if submissions do not meet the specified standards. If a submission is deemed unacceptable and rejected by DOA, the agency will be provided a short window of opportunity to resubmit the information in a manner that adequately addresses the deficiencies noted by DOA and avoid citation in the <i>Quarterly Report on Statewide Financial Management and Compliance</i>.</p> <p>Agencies should copy APA on all E-mail submissions at: <a href="mailto:APAFinRept@apa.virginia.gov">APAFinRept@apa.virginia.gov</a>.</p>

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## Reconciliation to CARS

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### What is required?

The following requirements apply to the reconciliation of CARS:

- Reconcile, where appropriate, all internally prepared accounting records, data submission logs, and other accounting data to reports produced by CARS.
  - Perform and certify these reconciliations to DOA monthly and at fiscal year-end.
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## Preparation of Attachments

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### Purpose and requirements

Most agencies are not required to prepare financial statement templates (Attachments 8-12). Agencies that are not required to prepare financial statement templates for specified funds are required to submit other attachments for DOA to gather financial information needed for the CAFR.

- Attachments must comply with applicable GASB Statements. This includes compliance with GASBS No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and GASBS No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments.
- Attachments must be in the format provided in this Directive.

Once again, except as otherwise noted on specific attachments, DOA requires the agency to E-mail the submissions to DOA. **Agencies should not submit paper copies of E-mailed attachments**. All attachments must be sent to DOA and copied to APA except for Attachment 28, Report of Financial Condition, which must be sent **only** to the APA.

**To prevent rounding errors, ALL dollar amounts reported to DOA must be whole numbers that are rounded to the nearest dollar. The attachments require whole numbers.**

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## Preparation of Attachments, Continued

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### Overall changes

- Due dates have been revised from the previous year. Some due dates are later and some are earlier.
- A detailed listing of changes and items of interest was e-mailed to fiscal officers and is posted on DOA's website at [www.doa.virginia.gov](http://www.doa.virginia.gov). Click on the "Financial Reporting" button, then click on "Financial Statement Directives."

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### GASBS No. 34, government- wide revenue classification

As in the prior year, information from last year's submissions and CARS activity was analyzed and is posted on DOA's website at [www.doa.virginia.gov](http://www.doa.virginia.gov) as the **GASBS No. 34 Government-wide Revenue Classification Table**. Click on the "Financial Reporting" button, then click on "Financial Statement Directives." When completing attachments that require GASBS No. 34 government-wide revenue classifications, refer to this table for proper classification. **NOTE: This table will be available in mid-July 2005.**

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### New attachments

Attachment 13A, Capital Assets Transferred to the Virginia Information Technologies Agency (VITA), will capture the assets transferred to VITA to ensure assets are not double counted in the CAFR.

Attachment 30, Restricted Net Assets, is used to gather restricted net asset information in anticipation of fiscal year 2006 implementation of GASBS No. 46, *Net Assets Restricted by Enabling Legislation*.

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## Preparation of Attachments, Continued

### Due dates

The attachment due dates are detailed below:

<i><b>Attachment</b></i>	<i><b>Attachment Name</b></i>	<i><b>Due Date</b></i>
<b>1</b>	Checklist to Determine Information Required by Comptroller's Directive	<b>July 21</b>
<b>2</b>	Contact Survey	<b>July 21</b>
<b>3</b>	<u>GASBS No. 14</u> Checklist Modified to Reflect <u>GASBS No. 39</u>	<b>July 21</b>
<b>4</b>	Leave Liability Statement—CIPPS Users	<b>August 4</b>
<b>5</b>	Leave Liability Statement—Non-CIPPS Users	<b>August 4</b>
<b>6</b>	Schedule of Outstanding Installment Purchase Obligations	<b>August 4</b>
<b>7</b>	Schedule of Inventory on Hand at June 30	<b>August 4</b>
<b>8</b>	Governmental Fund Financial Statement Template	<b>August 18</b>
<b>9</b>	Enterprise Fund Financial Statement Template	<b>August 18</b>
<b>10</b>	Internal Service Fund Financial Statement Template	<b>August 18</b>
<b>11</b>	Private-purpose Trust Fund Financial Statement Template	<b>August 18</b>
<b>12</b>	Agency Fund Financial Statement Template	<b>August 18</b>
<b>13</b>	Capital Asset Accounting and Control System (FAACS) Analysis	<b>August 18</b>
<b>13A</b>	Capital Assets Transferred to the Virginia Information Technologies Agency	<b>August 18</b>
<b>14</b>	Federal Schedules	<b>August 18</b>
<b>15</b>	<u>GASBS No. 33</u> Expenditure and Revenue Analysis	<b>August 18</b>
<b>16</b>	<u>GASBS No. 38</u> Short-term Debt	<b>August 18</b>
<b>17</b>	Internal Service Funds – Conversion to Government-wide Statement of Activities	<b>August 25</b>
<b>18</b>	Receivables as of June 30	<b>September 1</b>
<b>19</b>	Schedule of Retainage Payable	<b>September 1</b>
<b>20</b>	Schedule of Cash, Cash Equivalents, and Investments at June 30	<b>September 1</b>
<b>21</b>	Donor-restricted Endowments	<b>September 1</b>
<b>22</b>	<u>GASBS No. 33</u> Federal Fund Analysis – Advance Funded / Block Grants	<b>September 22</b>
<b>23</b>	Government-wide Payables and Other Accruals at June 30	<b>September 22</b>
<b>24</b>	Direct Billed Central Services	<b>September 22</b>
<b>25</b>	Management Discussion and Analysis	<b>September 22</b>
<b>26</b>	Internal Control Statement	<b>October 20</b>
<b>27</b>	Adjustments	<b>October 20</b>
<b>28</b>	Report of Financial Condition	<b>October 20</b>
<b>29</b>	Supplemental Information – Revision Control Log	<b>As revisions made</b>
<b>30</b>	Restricted Net Assets	<b>December 8</b>



# Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12)

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## Introduction

This section is divided into the following areas:

- Agencies required to submit templates
- General financial statement template guidelines
- GASBS No. 28 reporting for securities lending amounts invested in the General Account
- GASBS No. 33 and GASBS No. 36
- GASBS No. 34 / GASBS No. 37 / Interpretation No. 6
- GASBS No. 38
- GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*
- GASBS No. 39
- GASBS No. 40
- GASBS No. 42
- GASBS No. 44
- GASBS No. 46
- Guidelines for financial statement template work papers

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## Agencies required to submit templates

Agencies listed on the following pages are required to submit GAAP basis (GASBS No. 34) financial statement templates. In some instances, templates are required only for specific fund(s) within an agency. The table on the following pages indicates the specific reporting requirements for each agency.

**If the agency is not listed on the following pages and has off-CARS activity, then the agency must notify Jamie Motley, Assistant Director of Financial Reporting, at (804) 225-2646.** The agency may be required to prepare GAAP basis (GASBS No. 34) financial statement templates in accordance with this Directive.

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## Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12), Continued

### Agencies required to submit templates (continued)

Agency / Fund	Fund Type	Attachment Number
<b>Department of Agriculture</b> Milk Commission—Producer Recovery / Equalization Fund	Agency	12
<b>Department of Alcoholic Beverage Control</b>	Enterprise	9
<b>Department of Aviation</b> Aviation LGIP Funds	Agency	12
<b>Department for the Blind and Vision Impaired</b> Special Revenue Fund	Special Revenue	8
Virginia Industries for the Blind	Enterprise	9
<b>Department of Conservation and Recreation</b> State Parks Projects Fund	Special Revenue	8
Chippokes Plantation Farm Foundation	Special Revenue	8
<b>Department of Corrections (See Supplemental Information section)</b> Commissary Fund	Special Revenue	8
Inmate & Ward Trust Fund	Agency	12
<b>Department of Environmental Quality</b> Title V Air Pollution Permit Fund	Enterprise	9
<b>Department of General Services</b> Virginia War Memorial	Special Revenue	8
EVA	Enterprise	9
Newborn Screening / Consolidated Labs	Enterprise	9
Consolidated Laboratory Water Testing	Internal Service	10
Engineering Services	Internal Service	10
Federal Surplus Property	Internal Service	10
Fleet Management	Internal Service	10
Maintenance & Repair	Internal Service	10
Office of Graphic Communications	Internal Service	10
Property Disposal Service	Internal Service	10
State Surplus Property	Internal Service	10
Virginia Distribution Center	Internal Service	10
<b>Department of Human Resource Management (See Supplemental Information section)</b> Local Choice	Enterprise	9
Health Insurance Fund	Internal Service	10
Workers' Compensation	Internal Service	10
<b>Department of Juvenile Justice</b> Commissary Fund	Special Revenue	8
Donation Trust Fund	Special Revenue	8
J. Bryan Trust Fund	Special Revenue	8
Inmate and Ward Trust Fund	Agency	12

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## Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12), Continued

### Agencies required to submit templates (continued)

Agency / Fund	Fund Type	Attachment Number
<b>Department of MHMR and SAS – Local Funds:</b>		
Special Revenue Fund	Special Revenue	8
Permanent Fund	Permanent	8
Canteen and Local Activity Fund	Enterprise	9
Non-patient Agency Fund	Agency	12
Patient / Resident Fund	Agency	12
<b>Department of Mines, Minerals, and Energy</b>		
Mined Land Deposit Trust Fund	Agency	12
<b>Department of Motor Vehicles</b>		
All Off-CARS funds (deposits from retailers)	Agency	12
<b>Department of Professional and Occupational Regulation</b>		
Contractor's Transaction Recovery Act Fund	Special Revenue	8
Virginia Real Estate Transaction Recovery Fund	Special Revenue	8
<b>Department of Social Services</b>		
Fund Detail 0200 – Child Support Administration	Special Revenue	8
Fund Detail 0200 – Child Support	Agency	12
<b>Department of State Police</b>		
Asset Forfeiture Fund	Agency	12
<b>Department of Transportation</b>		
Debt Service Fund	Debt Service	8
Pocahontas Parkway Association	Enterprise	9
GLA 540 – Guarantee Deposits	Agency	12
<b>Department of Treasury (See Supplemental Information section)</b>		
Virginia Public Building Authority-Cap. Project	Capital Project	8
Virginia Public Building Authority-Debt Service	Debt Service	8
Risk Management Enterprise Funds	Enterprise	9
Risk Management Internal Service Funds	Internal Service	10
Unclaimed Property of the Commonwealth	Private Purpose	11
Unclaimed Property of Other States	Agency	12
Deposits of Insurance Carriers (Insurance Collateral)	Agency	12
<b>Division of Legislative Services</b>		
Enterprise Activity	Enterprise	9
<b>Gunston Hall</b>		
Off-CARS Museum Collections Fund	Special Revenue	8
<b>Rehabilitation Center for the Blind and Vision Impaired</b>		
Virginia Rehabilitation Center for the Blind Trust Fund	Special Revenue	8

*Continued on next page*

## Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12), Continued

### Agencies required to submit templates (continued)

<b>Agency / Fund</b>	<b>Fund Type</b>	<b>Attachment Number</b>
<b>Science Museum of Virginia</b> Gift Shop Enterprise Fund	Enterprise	9
<b>State Lottery Department</b>	Enterprise	9
<b>Virginia College Savings Plan</b> Virginia Prepaid Education Program	Enterprise	9
Virginia Education Savings Trust and College America	Private-purpose	11
<b>Virginia Commission for the Arts</b> Virginia Arts Foundation Fund	Permanent	8
<b>Virginia Correctional Enterprises</b>	Internal Service	10
<b>Virginia Employment Commission</b> Unemployment Compensation	Enterprise	9
<b>Virginia Information Technologies Agency</b> Virginia Information Providers' Network	Enterprise	9
Wireless E-911	Enterprise	9
VITA	Internal Service	10
<b>Virginia Museum of Fine Arts</b> Special Revenue Fund	Special Revenue	8
Gift Shop & Food Services	Enterprise	9
<b>Virginia School for the Deaf and Blind at Staunton</b> – All Off-CARS Funds:		
Special Revenue	Special Revenue	8
Enterprise Fund	Enterprise	9
Agency Fund	Agency	12
<b>Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton</b> – All Off-CARS Funds:		
Agency Fund	Agency	12
<b>Virginia State Bar</b> Clients' Protection Fund	Special Revenue	8
Administration Finance Fund	Special Revenue	8
<b>Woodrow Wilson Rehabilitation Center</b> Off-CARS Agency Fund	Agency	12

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# Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12), Continued

## General financial statement template guidelines

The following guidelines apply to the GAAP basis (GASBS No. 34) financial statement templates that agencies prepare and submit to DOA:

- Prepare all financial statement templates in accordance with GAAP as prescribed by GASB.
- A GAAP Master List is available on DOA's web site at [www.doa.virginia.gov](http://www.doa.virginia.gov). Click on "Financial Reporting." This non-authoritative listing has been added for informational purposes to assist in financial statement template preparation.
- Unless specific funds are listed, the agency must present all funds maintained by the agency regardless of whether the funds are recorded on CARS. This includes all trust, local, and endowment funds.
- Report materials and supplies inventories on the financial statement templates using the consumption method.
- Record any applicable lag pay accruals in the financial statement templates. At a minimum, this will require recording of the July 1 (June 10-24 pay period) and a portion of the July 15 (June 25-30 pay period) paychecks. These amounts should be recorded on the accounts payable line item.

Use the criteria in GASBS No. 39, *Determining Whether Certain Organizations Are Component Units*, to evaluate which organizations are included in the financial reporting entity.

- Attachment 3 outlines the requirements of GASBS No. 39.
- Return the completed Attachment 3 for each organization evaluated by July 21, 2005.
- Be aware of legislative changes in fiscal year 2005.

Refer to the **GASBS No. 34 - Financial Reporting Model Overview** and the **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates** sections in this Directive for further guidance on preparation of the financial statement templates.

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## Preparation of GAAP Basis ([GASBS No. 34](#)) Financial Statement Templates ([Attachments 8-12](#)), Continued

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### [GASBS No. 28](#) [reporting for](#) [securities](#) [lending](#) [amounts](#) [invested in the](#) [General](#) [Account](#)

For those agencies that must submit GAAP basis financial statement templates, **DOA will provide** asset, liability, income, and expense amounts for the agencies' share of securities lending transactions, **if any**, held in the General Account of the Commonwealth. This information will be provided in a separate document.

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### [GASBS No. 33](#) [and \[GASBS No. 36\]\(#\)](#)

Nonexchange transactions must be reported in accordance with [GASBS No. 33](#) and [GASBS No. 36](#) (see also [GASBS No. 33 – Nonexchange Transactions Overview](#) section in this Directive).

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### [GASBS No. 34 /](#) [GASBS No. 37 /](#) [Interpretation](#) [No. 6](#)

[GASBS No. 34](#), [GASBS No. 37](#), and [GASB Interpretation No. 6](#) establish significant revisions to the financial reporting model (see also [GASBS No. 34 – Financial Reporting Model Overview](#) section in this Directive).

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### [GASBS No. 38](#)

[GASBS No. 38](#), *Certain Financial Statement Note Disclosures*, establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

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### [GASB](#) [Technical](#) [Bulletin 2003-1](#)

[GASB Technical Bulletin 2003-1](#), *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*, provides guidance on derivative disclosures.

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## Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12), Continued

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<u><a href="#">GASBS No. 39</a></u>	<u>GASBS No. 39</u> , <i>Determining Whether Certain Organizations Are Component Units</i> , amends <u>GASBS No. 14</u> , and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. <u>GASBS No. 39</u> also provides reporting requirements for such organizations.
<u><a href="#">GASBS No. 40</a></u>	<u>GASBS No. 40</u> , <i>Deposit and Investment Risk Disclosures</i> , amends <u>GASBS No. 3</u> by updating the custodial credit risk disclosure requirements and by establishing more comprehensive disclosure requirements for other common risks of deposits and investments. This statement is effective fiscal year 2005.
<u><a href="#">GASBS No. 42</a></u>	<u>GASBS No. 42</u> , <i>Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries</i> , requires evaluation of events and circumstances that might impair the value of capital assets. This statement is effective for fiscal year 2006.
<u><a href="#">GASBS No. 44</a></u>	<u>GASBS No. 44</u> , <i>Economic Condition Reporting: The Statistical Section</i> , modifies the reporting guidelines DOA must report in the Statistical Section in the CAFR. This statement is effective for fiscal year 2006.
<u><a href="#">GASBS No. 46</a></u>	<u>GASBS No. 46</u> , <i>Net Assets Restricted by Enabling Legislation</i> , provides additional clarification and reporting guidance on net assets that are restricted as a result of enabling legislation. This statement is effective for fiscal year 2006.

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## Preparation of GAAP Basis (GASBS No. 34) Financial Statement Templates (Attachments 8-12), Continued

### Guidelines for financial statement template work papers

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The following guidelines apply to the preparation of financial statement template work papers:

- Prepare work papers that clearly support the preparation of the financial statement templates.
- Fully reconcile work papers to final CARS closing reports.
- Provide an adequate crosswalk and audit trail from the work papers to the financial statement template. For governmental funds, this must include the adjusting entries for converting from the fund statement information to the government-wide statement information.
- The following work papers are required but are not all-inclusive:
  - ❑ Trial balances of funds maintained on CARS
  - ❑ Trial balances of funds that are not maintained on CARS
  - ❑ Trial balances of government-wide financial statements
  - ❑ Reconciliation between government-wide financial statement information and fund statement information, including adjusting journal entries and supporting documentation
  - ❑ Itemized listing of capitalized fixed assets as of year-end which reconciles to the agency's internal accounting system and / or CARS, if applicable
  - ❑ Itemized listing of accounts receivable, allowance for doubtful accounts, and accounts payable

Work papers and agency supporting internal records should be ready for APA review by **August 18, 2005**.

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## **GASBS No. 33 – Nonexchange Transactions Overview**

### **Definition of nonexchange transactions**

Nonexchange transactions are those transactions where a government gives (or receives) value **without** directly receiving (or giving) equal value in return. GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASBS No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, provide guidance on reporting nonexchange transactions. The four types of nonexchange transactions are as follows:

**Derived Tax Revenues** – assessments imposed by governments on exchange transactions.

**Imposed Nonexchange Transactions** – assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions.

**Government-mandated Nonexchange Transactions** – a government at one level provides resources to a government at another level and requires that government to use the resources for a specific purpose or purposes established by the provider’s enabling legislation.

**Voluntary Nonexchange Transactions** – result from legislative or contractual agreements, other than exchanges, entered into willingly by two parties.

### **Derived tax revenue – recognition requirements**

**Examples:** sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption

#### **Asset Recognition:**

Period when underlying exchange has occurred or when resources are received, whichever is first.

#### **Revenue Recognition:**

Period when underlying exchange has occurred. (Report advance receipts as deferred revenues.) When modified accrual accounting is used, resources also should be available.

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## **GASBS No. 33 – Nonexchange Transactions Overview, Continued**

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### **Imposed nonexchange transactions – recognition requirements**

**Examples:** property taxes, most fines and forfeitures

**Asset Recognition:**

Period when an enforceable legal claim has arisen or when resources are received, whichever is first.

**Revenue Recognition:**

Period when resources are required to be used or first period that use is permitted. When modified accrual accounting is used, resources also should be available.

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### **Government- mandated / voluntary nonexchange transactions – recognition requirements**

**Examples:** government-mandated nonexchange transactions – federal government mandates on state and local governments / voluntary nonexchange transactions – certain grants and entitlements, most donations

**Asset and Liability Recognition:**

Period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first.

**Revenue and Expense / Expenditure Recognition:**

Period when all eligibility requirements have been met. (Report advance receipts or payments for use in the following period as deferred revenues or advances, respectively.) When modified accrual accounting is used for revenue recognition, resources also should be available.

**Note:** Eligibility requirements are discussed on the following page.

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*Continued on next page*

## **GASBS No. 33 – Nonexchange Transactions Overview, Continued**

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### **Overall recognition requirements**

Revenue transactions that do not meet the revenue recognition requirements in GASBS No. 33 and GASBS No. 36 must be reclassified as deferred revenue. Expense / expenditure transactions that do not meet the expense / expenditure recognition requirements in GASBS No. 33 must be reclassified as an advance. That is, until those requirements are met, the provider does not have a liability or recognize an expense / expenditure.

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### **Eligibility requirements**

The eligibility requirements are conditions established by enabling legislation or by the provider that must be met before a **nonexchange** transaction can occur. The eligibility requirements are:

- Required characteristics of recipients: The recipient has the characteristics specified by the provider. (For example: Under a certain federal program, recipients are required to be states & secondary recipients are required to be school districts.)
  - Time requirements: Time requirements specified by enabling legislation or by the provider have been met. (For example: The period when the resources are required to be used, or when use may begin.)
  - Reimbursements: The provider offers resources on a reimbursement (expenditure driven) basis, and the recipient has incurred allowable costs under the applicable program.
  - Contingencies (applies only to voluntary nonexchange transactions): The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.
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## **GASBS No. 33 – Nonexchange Transactions Overview, Continued**

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### **Footnote disclosure**

GASBS No. 33, paragraph 11 states that under either basis of accounting (modified accrual or accrual), recognition of transactions is only required if the transactions are measurable (reasonably estimable) and probable of collection. **GASBS No. 33 requires footnote disclosure of transactions that are not recognizable because they are not measurable.**

If applicable, agencies that are required to submit financial statement templates must disclose this information.

If applicable, agencies not required to submit financial statement templates on certain funds must provide this disclosure to DOA on Attachment 15, GASBS No. 33 Expenditure and Revenue Analysis.

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### **Obtaining information from agencies**

**GASBS No. 33 and GASBS No. 36 requirements must be followed when preparing GAAP basis (GASBS No. 34) financial statement templates (Attachments 8-12), supplemental information, and other attachments.**

The following attachments are to obtain GASBS No. 33 and GASBS No. 36 information on funds not included in financial statement templates:

- Attachment 15, GASBS No. 33 Expenditure and Revenue Analysis
- Attachment 22, GASBS No. 33 Federal Fund Analysis – Advance Funded / Block Grants

**Agencies should refer to GASB statements for additional guidance and examples of nonexchange transactions and eligibility requirements.**

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## **GASBS No. 34 – Financial Reporting Model Overview**

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### **Background**

GASBS No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, modified the financial reporting requirements for governmental entities. GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. GASBS No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, clarifies certain provisions in GASBS No. 34.

GASB has also issued four implementation guides to provide additional guidance in implementing GASBS No. 34:

- 1<sup>st</sup> Implementation Guide issued in April 2000
- 2<sup>nd</sup> Implementation Guide issued in January 2002
- 3<sup>rd</sup> Comprehensive Implementation Guide issued in June 2003
- 4<sup>th</sup> Comprehensive Implementation Guide issued in September 2004

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### **Resources**

Resources can be accessed as follows:

<b>Resource</b>	<b>Source</b>
GASB Statements and related Implementation Guides	<a href="http://www.gasb.org">www.gasb.org</a>
<i>Governmental Accounting, Auditing, and Financial Reporting 2005 Edition – Using the GASB 34 Model</i>	<a href="http://www.gfoa.org">www.gfoa.org</a>

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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**Requirements**      Each agency must follow **GASBS No. 34, GASBS No. 37, GASB Interpretation No. 6, and the Implementation Guides** when preparing the GAAP Basis (**GASBS No. 34**) financial statement templates, other attachments, and / or supplemental information.

**Any reference to GASBS No. 34 in this section means GASBS No. 34, GASBS No. 37, GASB Interpretation No. 6, and the Implementation Guides.**

The following sections provide some of the GASBS No. 34 requirements. This is **not a complete listing**.

The following is a listing of minimum requirements for the CAFR and / or agency published financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Government-wide financial statements (governmental funds only)
  - Fund financial statements
  - Reconciliation between government-wide and fund financial statements
  - Notes to the financial statements
- Required Supplemental Information

**NOTE:** DOA will obtain the aforementioned requirements through financial statement templates (Attachments 8-12), other attachments, and supplemental information submissions.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Requirements (continued)**

- The statement requires the addition of the Management Discussion and Analysis section. (**NOTE:** For CAFR reporting requirements, DOA will obtain this information from selected agencies in Attachment 25, Management Discussion and Analysis.)
- The statement requires a Government-wide Statement of Net Assets and Statement of Activities. These statements are on the economic resources measurement focus and full accrual basis of accounting. The fund statements for governmental funds are on a current resources measurement focus and modified accrual basis of accounting. The government-wide and fund statements must be reconciled.
- Government-wide Statement of Net Assets and Proprietary Fund Statement of Net Assets have the following net asset line items: Invested in Capital Assets, Net of Related Debt; Restricted (by description); and Unrestricted.
- Government-wide Statement of Activities has different revenue classifications than the fund statements.
- Infrastructure assets acquired during FY 2002 and after must be reported in the agency's financial statements. Infrastructure assets acquired before July 1, 2001, must be reported in the agency's financial statements in FY 2006.

**It is recommended that agencies read GASBS No. 34, GASBS No. 37, GASB Interpretation No. 6, and the Implementation Guides before preparing financial statement templates.**

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Funds**

DOA analyzes and determines the reporting classifications for all CAFR funds. **DOA will contact agencies for assistance to determine the proper fund classifications for new funds.** Refer to GASBS No. 34 for definitions of each fund. Below is a listing of the funds:

#### **Governmental Funds:**

- General
- Special Revenue
- Capital Projects
- Debt Service
- Permanent

#### **Proprietary Funds:**

- Enterprise
- Internal Service

#### **Fiduciary Funds:**

- Pension (and other employee benefit) Trust
- Investment Trust
- Private-purpose Trust
- Agency

**Note:** The General Long-term Debt and General Fixed Asset Account Groups do not exist under GASBS No. 34. Activity related to long-term debt and fixed assets for governmental funds is reported in the Government-wide Statement of Net Assets and Statement of Activities under the full accrual basis of accounting and economic resources measurement focus.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Fund financial statements**

#### **FUND FINANCIAL STATEMENTS:**

**Governmental** fund statements are presented on the modified accrual basis of accounting / current resources measurement focus and include a

- Balance Sheet, and
- Statement of Revenues, Expenditures, and Changes in Fund Balance.

**Proprietary** fund statements are presented on the full accrual basis of accounting / economic resources measurement focus and include a

- Statement of Net Assets,
- Statement of Revenues, Expenses, and Changes in Fund Net Assets, and
- Statement of Cash Flows (Direct method).

**Fiduciary** fund statements are presented on the full accrual basis of accounting / economic resources measurement focus and include a

- Statement of Fiduciary Net Assets, and
- Statement of Changes in Fiduciary Net Assets.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Government- wide financial statements**

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

The government-wide financial statements are reported using the full accrual basis of accounting / economic resources measurement focus and present aggregate totals for the governmental funds and business-type activities (proprietary funds) in separate columns. These columns are then added to provide a primary government total. The government-wide financial statements include two separate statements.

- Statement of Net Assets (similar to a balance sheet)
- Statement of Activities (similar to an operating statement)

The 2005 GAAFR includes examples of how to convert the fund statements to the government-wide financial statements.

GASBS No. 34 also requires the following reconciliations:

- Reconciliation between the fund balance on the Balance Sheet and the Net Assets of governmental activities on the Statement of Net Assets
- Reconciliation between the total change in governmental fund balances and the change in net assets of governmental activities on the Statement of Activities

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Converting entries**

Below are a few examples of entries needed to convert governmental fund modified accrual basis statements to government-wide full accrual basis statements. **This is not a complete listing of all conversion entries needed.**

- Capital assets and long-term liabilities must be reported on the government-wide statements.
- Expenditures to acquire capitalized fixed assets must be recorded as a debit to capital assets rather than to expenditures.
- Gain / loss on the sale of capital assets must be recorded.
- Depreciation expense on capital assets must be recorded on the government-wide statements.
- Receivables at June 30 on the fund statements and government-wide statements are equivalent; however, the receivables to be received after August 31 must be reported as revenue on the government-wide statements and as deferred revenue on the fund statements.
- Revenue must be reported as general revenue or program revenue / function rather than by revenue class.

As noted on the previous page, the 2005 GAAFR provides examples of converting the fund statements to government-wide statements.

**Agencies not required to prepare financial statement templates (Attachments 8-12) will provide various attachments and / or supplemental information necessary for DOA to convert to the government-wide financial statements.**

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### **Exceptions to government-wide financial statements**

Fiduciary fund activity is **not** reported in the government-wide financial statements. This information is only reported in the fund financial statements.

Governmental funds and enterprise funds government-wide financial information is obtained from the financial statement templates. Internal service fund government-wide statement information is obtained from Attachment 17, Internal Service Funds – Conversion to Government-wide Statement of Activities.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Calculation of material funds for governmental and proprietary funds**

The focus of governmental and proprietary fund financial statements is on major funds. Fund statements should be presented with each major fund in a separate column. Nonmajor funds should be aggregated in a single column. GASBS No. 34 does not require combining statements for nonmajor funds; however, the Commonwealth will reflect combining statements as required for CAFR reporting. Accordingly, each agency preparing financial statement templates **must not** aggregate non-major CAFR reporting funds into a single financial statement template. In order to provide uniformity among state and local governments, the GASB requires that the General Fund always be considered a major fund. The statement also requires that other governmental or enterprise funds meeting the following criteria be considered major funds.

- Total assets, liabilities, revenues OR expenditures / expenses of the individual fund  $\geq$  10% of the corresponding total (assets, liabilities, etc.) for all funds of that category (i.e., total governmental OR enterprise funds)

### **AND**

- Total assets, liabilities, revenues OR expenditures / expenses of the individual fund  $\geq$  5% of the corresponding total for ALL governmental and enterprise funds combined

**Note:** The statement also allows management to report funds not meeting the above criteria as major funds *if* management believes that those funds are particularly important to the financial statements.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Statement of Net Assets – overview**

Assets and liabilities must be in order of relative liquidity or presented in a classified format to identify current (converted to cash within one year / due within one year) and noncurrent assets and liabilities (converted to cash in greater than one year / due in greater than one year). If the classified format is not used, liabilities with average maturities greater than one year must be reported separately as amounts due within one year and amounts due in greater than one year. **Proprietary funds must use the classified format.**

Cash and cash equivalents (original maturity of 90 days or less) must be reported separately from investments (original maturity of greater than 90 days). Distinguish between Cash and Cash Equivalents with the Treasurer, Cash and Cash Equivalents not with the Treasurer, Investments with the Treasurer, and Investments not with the Treasurer.

Depreciable and nondepreciable capital assets must be reported on separate line items. This does not apply to the Balance Sheet for Governmental Funds because capital assets are not reported on those statements. Capital Assets are only reported in the Government-wide Statement of Net Assets for Governmental Funds.

For the Statement of Net Assets, the fund balance / retained earnings and contributed capital are called net assets under GASBS No. 34 and must be displayed in three broad components:

- 1. Invested in capital assets, net of related debt**
- 2. Restricted (including a description of each type of restriction)**
- 3. Unrestricted**

The following sections provide definitions of Invested in Capital Assets, Net of Related Debt, and Restricted Net Assets. **Unrestricted** net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Statement of Net Assets – Invested in Capital Assets, Net of Related Debt**

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other **borrowings** that are attributable to the acquisition, construction, or improvement of those assets. This component does not include accounts payable related to capital assets because an accounts payable is not considered a borrowing. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net asset component as the unspent proceeds - for example, restricted for capital projects.

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### **Statement of Net Assets – Restricted Net Assets**

**Restricted** net assets should be reported as restricted, including a description of the restriction, when constraints placed on net asset use are either:

- externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- imposed by law through constitutional provisions or enabling legislation.

GASBS No. 34 Implementation Guide, question 95 states the following: “The basic concept is that restrictions are not unilaterally established by the reporting government itself and cannot be removed without the consent of those imposing the restrictions or through formal due process.” **Any resources that are classified as program revenue – operating or capital grants & contributions are restricted.**

If restricted net assets include amounts related to permanent endowments or permanent fund principal, the expendable and nonexpendable components must be reported separately.

- See GASBS No. 34 for further guidance on restricted net assets.

**DOA will contact agencies, as needed, to obtain information to appropriately report restrictions in the CAFR.**

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Statement of Activities – revenue classification**

GASBS No. 34 requires revenue to be classified as one of the following on the Government-wide Statement of Activities:

- General Revenue
- Contributions to Term and Permanent Endowments and Contributions to Permanent Fund Principal
- Program Revenue – Charges for Goods / Services
- Program Revenue – Operating Grants and Contributions
- Program Revenue – Capital Grants and Contributions

**Program revenue must also be classified by expenditure function.**

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### **Statement of Activities – expenditure functions for program revenue**

GASBS No. 34 requires that program revenues be presented as a reduction of the total expense of the benefiting function; therefore, expenditure functions (general government, education, resources & economic development, etc.) must be assigned to revenues. For **charges for services**, this is the function that generates the revenue. For **grants and contributions**, this is the function to which the revenues are restricted.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Statement of Activities – General Revenue**

All revenues are general revenues unless the revenues are required to be reported as program revenues. General revenues consist of the following categories:

- Taxes (source codes 01xxx)
- Investment Earnings
- Grants & Contributions Not Restricted to Specific Programs
- Miscellaneous

All taxes, even those that are levied for a specific purpose (for example, sales tax, property tax, franchise tax, income tax) are general revenues. All other non-tax revenues (including interest, grants and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues.

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### **Statement of Activities – Contributions to Term and Permanent Endowments**

Contributions to term and permanent endowments and contributions to permanent fund principal must be reported as a separate revenue line item. Permanent endowment and permanent fund principal is not expendable. Term endowment principal is not expendable until after a specified time period or after a designated event.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Statement of Activities – Program Revenue**

The following are descriptions of the classifications of program revenue.

- **Charges for Goods / Services** – include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services, or privileges provided or are otherwise directly affected by the services. **Source codes 02xxx – Rights & Privileges, 03xxx – Sales of Property, 05xxx – Assessments, and 08xxx – Fines, Fees & Forfeitures should be classified as Charges for Goods / Services. These are not the only source codes that may be classified as charges for goods / services.**
- **Operating Grants and Contributions** – include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government should be reported as Operating Grants and Contributions.
- **Capital Grants and Contributions** – include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes (to purchase, construct, or renovate capital assets associated with a specific program). These items should be reported as Capital Grants and Contributions.

Multipurpose Grants (grants that provide financing for more than one program) – should be reported as program revenue if the amounts restricted to each program are specifically identified in either the grant award or the grant application. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as General Revenues.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program specifically identified in the endowment or permanent fund agreement or contract. However, these earnings should be reported as General Revenue if the earnings are used to finance general operating expenses. Earnings on investments not held by permanent funds also may be legally restricted to specific functions or programs. For example, interest earnings on State grants may be required to be used to support a specific program.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Government-wide revenue classifications for funds not included in financial statement templates**

DOA has analyzed revenue source codes not included in agency prepared financial statement templates for fiscal year 2005 based on CARS activity and communication with selected agencies. Agencies not required to prepare financial statement templates must refer to the **GASBS No. 34 Government-wide Revenue Classification Table** on DOA's website at [www.doa.virginia.gov](http://www.doa.virginia.gov). Click on the "Financial Reporting" button, then click on "Financial Statement Directives." Agencies can look up an agency, fund / fund detail, and source code to obtain the proper GASBS No. 34 government-wide revenue classification to record on attachments and / or supplemental information. For any new revenue source codes, DOA will contact agencies to determine the proper classifications. **NOTE: This table will be available in mid-July 2005.**

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### **Fund financial statements – overview**

GASBS No. 34 did **not** significantly change the fund statements. Some of the changes are explained in the following sections.

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### **Balance Sheet / Statement of Net Assets – all funds**

GASBS No. 34 requires that cash and cash equivalents be reported on a separate line item from investments.

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## **GASBS No. 34 – Financial Reporting Model Overview, Continued**

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### **Fund financial statements – proprietary funds**

- Statement of Net Assets must be prepared in the **classified format**.
- For the Statement of Net Assets, the retained earnings and contributed capital are components of net assets and must be displayed as follows: Invested in Capital Assets Net of Related Debt, Restricted (including a description), and Unrestricted. **In some cases, this reporting will result in a negative net asset unrestricted balance.** See the following example for reporting total net assets (formerly retained earnings / contributed capital) of \$1,000,000:

Invested in Capital Assets, Net of Related Debt	\$2,500,000
Restricted Net Assets,	0
Unrestricted Net Assets	<u>(\$1,500,000)</u>
Total Net Assets	<u>\$1,000,000</u>

- Current year contributed capital activity should be reported in the nonoperating section of the Statement of Revenues, Expenses, and Changes in Fund Net Assets.
- The Cash Flows from Operating Activities section of the Statement of Cash Flows should include the following two line items for quasi-external activity:
  - Internal Activity – Payments to Other Funds
  - Internal Activity – Payments from Other Funds
- For Internal Service Funds only – financial statement templates must be prepared in GASBS No. 34 format for gross amounts before internal activity and balances can be eliminated by DOA. GASBS No. 34 states that internal activity and balances should be eliminated from the Government-wide Statement of Activities. This elimination removes the doubling up effect of reporting the original disbursement activity in the paying funds and in the internal service fund. An attachment is provided to eliminate the internal activity and convert amounts to the Government-wide Statement of Activities.

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## **GASBS No. 34 – Financial Reporting Model Overview**, Continued

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### **Fund financial statements – fiduciary funds**

- All fiduciary funds must be reported on the full accrual basis of accounting and the economic resources measurement focus.
  - Investments must be provided by investment type (i.e., bonds, stocks, etc.) on the Statement of Fiduciary Net Assets.
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### **Additional information**

See also the **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates** section in this Directive.

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### **Management's Discussion and Analysis**

Agencies required to prepare individually published financial statements may opt to prepare a Management's Discussion and Analysis (MD&A) in narrative form. Selected agencies must complete Attachment 25, Management Discussion and Analysis, for CAFR reporting.

**Note:** Refer to GASBS No. 34, paragraphs 8-11, for additional guidance if the agency prepares MD&A for individually published financial statements.

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates**

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### **Contents**

This section contains the following topics.

- Accounts Payable
  - Leases
  - Cash Transfers
  - Federal Fund Balance
  - Cash Flow Statement
  - Agency Funds – Statement of Changes in Assets and Liabilities
  - Pension Disclosures
  - Fluctuation Analysis Guidelines and Materiality Scopes
  - Other Guidelines
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### **Accounts Payable**

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#### **Definitions**

Accounts Payable: An obligation incurred prior to year-end (June 30) that has not been paid at or before year-end. Appropriation or budgetary considerations are NOT APPLICABLE in deciding whether an expenditure is a payable.

Revenue Refund Payable: A Revenue Refund that the agency incurred prior to year-end (June 30) that the agency has not refunded on or before year end.

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#### **“P” voucher process**

Use the “P” voucher process to provide accounts payable and revenue refunds payable data to DOA for the modified accrual basis of accounting.

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Accounts Payable, Continued**

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#### **Requirements of “P” voucher process**

The agency must add a “P” or “N” as the last character in the voucher number for all vouchers submitted to DOA in July and August based on the following.

- If the voucher represents an account payable or revenue refund at June 30, add a “P.”
- If the voucher does **not** represent an account payable or revenue refund at June 30, add an “N.”

During July and August, DOA will not process vouchers without a “P” or an “N.”

DOA’s fiscal year 2005 year-end agency closing instructions provide additional guidance. These instructions will be available for download from DOA’s web site at [www.doa.virginia.gov](http://www.doa.virginia.gov). Click on “General Accounting.” The agency should become familiar with these instructions prior to year-end close.

**NOTE:** The year-end agency closing instructions for “P” and “N” vouchers include guidelines to properly code vouchers in accordance with GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASBS No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.

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#### **Year-end reports**

To assist in recording accounts payable and revenue refunds in the financial statements on a modified accrual basis of accounting, DOA provides special year-end reports.

The reports listed below provide accounts payable and revenue refund data separately for July and August and are distributed after July and August monthly closing.

- ACTB 1495 – Detail Accounts Payable Report by Agency / Fund / Fund Detail / Program / Subprogram
  - ACTB 1496 – Report of All “P” Vouchers by Agency
  - ACTB 1497 – Detail Accounts Payable Report by Agency / Fund / Program
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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Accounts Payable, Continued**

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#### **Record retention**

To support financial statement disclosures, for APA review, and for agency internal audit review, retain the reports on the previous page and any related summaries in conformance with the existing record retention policies.

Records must include all accounts payable and revenue refunds payable. Do not include encumbered purchase orders or those portions of purchase orders for which goods or services were not received as of June 30.

Records should indicate to which expenditure or revenue line item each account payable or revenue refund voucher is recorded in the financial statements.

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Leases**

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#### **GASBS No. 13**

*GASBS No. 13, Accounting for Operating Leases with Scheduled Rent Increases*, sets standards for accounting and reporting operating leases with scheduled rent increases.

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#### **How to account for operating leases with scheduled rent increases**

**When the pattern of the payment requirements are systematic and rational**, lessee and lessor should measure revenues or expenditures for operating leases with scheduled rent increases by using the terms of the lease contract.

Examples of payment schedules that meet the above criteria follow.

- Scheduled rent increases to cover “economic factors relating to the property, such as the anticipated effects of property appreciation or increases in costs due to factors such as inflation”
- Rent payments which represent “the time pattern in which the leased property is available for the use of the lease”

**When rent payments in certain periods are artificially low when viewed in the context of earlier or later payments**, measure the lease transaction using **one** of the following two alternatives:

- Straight-line basis
- Estimated fair value of the rental

Lease agreements that contain non-appropriation clauses do not preclude the recording of long-term liabilities for these lease payments.

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#### **Additional resources**

For additional information concerning leases, refer to the CAPP Manual Section 70600, Lease Accounting System (LAS). Refer questions to Jamie Motley, Assistant Director of Financial Reporting, by phone at (804) 225-2646 or E-mail at [jamie.motley@doa.virginia.gov](mailto:jamie.motley@doa.virginia.gov).

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Cash Transfers**

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#### **Types of cash transfers**

There are two types of cash transfers.

- Cash transfers processed with appropriation transfers
  - Operating transfers to / from other funds within the same agency
- 

#### **How to report cash transfers**

The two types of transfers should be reported as **other financing sources / uses** as described below.

1. Report as “Transfers In” or “Transfers Out” if the activity represents transfers of General Fund appropriations from one State agency to another as dictated by the Appropriations Act or as ordered by the responsible Secretary. However, if the Appropriation Act requires the rendering or receiving of services between State agencies, report the transfer as revenues or expenditures.
  2. Operating transfers from one fund to another fund within the same agency to fund expenditures in the receiving fund. Report as “Transfers In” or “Transfers Out.” “Ins” **must equal** “Outs” for the agency as a whole.
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## Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued

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### Federal Fund Balance

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#### Overview

Agencies generally account for grants and contracts from the Federal government in a separate special revenue fund (usually in Fund 1000 on CARS).

Prior to implementation of GASBS No. 33, the Federal Fund balance was consistently reported as \$0, except for inventory and prepaid items. In most instances, the Federal Fund balance will still be reported as \$0 for GAAP basis statements; however, due to the effects of GASBS No. 33, Accounting and Financial Reporting for Nonexchange Transactions and GASBS No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, further analysis is required which may result in a Federal Fund balance.

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#### Positive balance

If all adjustments and accruals have been recorded and the ending fund balance is **positive**, the agency has cash belonging to the federal government. Since revenue was recognized when the cash was received and the funds have not yet been expended, revenue equal to the ending cash balance must be reclassified as deferred revenue.

Make the following adjusting entry at year-end.

Debit: Federal Grants and Contracts Revenue	XX
Credit: Deferred Revenue	XX

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Federal Fund Balance, Continued**

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#### **Negative balance**

If all adjustments and accruals have been recorded and the ending fund balance is **negative**, the federal government has not reimbursed the agency for expenditures it incurred.

Accounts receivable and revenue equal to the ending cash balance must be recorded to recognize the revenue for expenditures incurred but not reimbursed.

Make the following adjusting entry at year-end.

Debit: Accounts Receivable	XX
Credit: Federal Grants and Contracts Revenue	XX

#### **Important**

Before accruing a receivable and recognizing additional revenue, ensure that the agency has sufficient unexpended grant award remaining to cover the negative balance. A receivable is **not** to be accrued if the agency does not reasonably expect recovery of reported expenditures. To support the accrual of a receivable, prepare an analysis which details the amount of the grant, drawdowns, obligations incurred, and unexpended balances. Retain this analysis for APA review.

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Federal Fund Balance, Continued**

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#### **Federal Fund GASBS No. 33 Analysis**

Federal Fund nonexchange transactions must be analyzed in accordance with GASBS No. 33 and GASBS No. 36.

#### **Advance Funded / Block Grants (State Agency is recipient)**

Identify grants for which the agency met eligibility requirements as defined in GASBS No. 33 and GASBS No. 36. Determine the ending fund balance for these grants, if any. Since ending fund balances in the federal fund were initially eliminated above, ending fund balances for these grants must be reclassified to Revenue, as follows:

Debit: Deferred Revenue	XXX
Credit: Revenue	XXX

#### **All Grants (State Agency is pavor)**

Identify net expenditures to recipients that did not meet the eligibility requirements at fiscal year-end as defined in GASBS No. 33. This amount must be reclassified to an Advance, as follows:

Debit: Advance	XXX
Credit: Expenditure	XXX

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## **Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued**

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### **Cash Flow Statement**

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#### **GASBS No. 9**

GASBS No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, requires a Statement of Cash Flows for all proprietary funds.

Agencies with proprietary funds must complete the Statement of Cash Flows in the financial statement templates submitted to DOA.

GASBS No. 9 defines cash equivalents as short-term, highly liquid investments with original maturities of three months or less.

Noncash transactions affecting assets or liabilities must be disclosed in accordance with GASBS No. 9, paragraph 37.

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#### **Requirements**

- The direct method must be used to prepare the Statement of Cash Flows. This method requires the preparation of a reconciliation of operating income to net cash provided by operating activities.
  - For Statement of Net Asset presentation, DOA defines cash equivalents as short-term, highly liquid investments with original maturities of **90 days or less**.
  - Include the Change in the Fair Value of Investments in the Statement of Cash Flows. This represents the change in fair value of investments that is required to be reported in accordance with GASBS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.
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## Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued

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### Cash Flow Statement, Continued

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#### GFOA requirements

The Government Finance Officers Association **requires** the following:

- **Quasi-external transactions** should be presented on proprietary fund cash flow statements.
  - Quasi-external transactions should be accounted for as revenues, expenditures, or expenses on the operating statement in the funds involved.
  - The amount of contractual services on the operating statement should approximate the amount of contractual services reported on the Statement of Cash Flows.
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#### What are quasi-external transactions?

Quasi-external transactions are transactions that would be treated as revenues, expenditures, or expenses if the transactions involved organizations that are external to the governmental unit. Examples are listed below.

- Payments in lieu of taxes from an enterprise fund to the general fund
- Internal service billings to departments
- Routine employer contributions from the general fund to a pension trust fund
- Routine service charges for inspection, engineering, utilities, or similar services provided by a department financed from one fund to a department financed from another fund

Thus, if an internal service fund purchases supplies from an outside vendor and from another State agency, the transactions between the internal service fund and the other agency must be reflected separately from the vendor transactions.

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#### Reporting guidelines

Report quasi-external transactions with customers or suppliers that are part of the Commonwealth on the Statement of Cash Flows as “**Internal Activity – Payments from Other Funds**” or “**Internal Activity – Payments to Other Funds.**”

Report transactions with customers or suppliers that are not part of the Commonwealth on the Statement of Cash Flows as “Receipts for Sales and Services” or “Payments to Suppliers for Goods and Services.”

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## Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued

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### Cash Flow Statement, Continued

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#### Noncash flow activities

Review GASBS No. 9 to ensure that transactions that do not have inflow or outflow of cash are not reported on the Statement of Cash Flows. Examples of items to be excluded follow.

- Bond issuance costs and underwriters' fees that were deducted from bond proceeds (Net bond proceeds received would be presented as a cash inflow in the appropriate category)
  - A debt defeasance where no cash was received
  - The "rollover" of investments, such as certificates of deposit, where no cash actually flows in or out of the fund
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### Agency Funds – Statement of Changes in Assets and Liabilities

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#### Purpose of agency funds

Agency Funds are used to account for assets held by a government in a custodial capacity for individuals, private organizations, or other governments.

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#### Reporting of agency funds

Agency funds report assets equal to liabilities and do not measure or report results of operations. **In accordance with GASBS No. 34, agency funds are reported on the full accrual basis of accounting.** Investments must be reported by investment type (bonds, stocks, real estate, short-term, etc.).

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#### Reporting revenue collected

If the agency collects monies on behalf of a third party, the agency is acting in a custodial capacity for the Commonwealth. The monies collected are not generally available to the agency for expenditure.

Report monies collected and **not** remitted to the third party at June 30 as both assets and liabilities.

Report monies collected throughout the year as additions and monies remitted throughout the year to third parties as deductions.

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## Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued

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### Pension Disclosures

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**GASBS No. 25** *GASBS No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, establishes standards for pension plans, whether pension plan financial statements are included in the employer's financial report or in a separate financial report issued by the plan or the public employee retirement system that administers the plan.

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**Who is responsible for GASBS No. 25?** VRS has responsibility for complying with GASBS No. 25 requirements.  
**For compliance with this Directive**, agencies do **not** have to provide any VRS related disclosures required by GASBS No. 25.

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**GASBS No. 27** *GASBS No. 27, Accounting for Pensions by State and Local Governmental Employers*, establishes standards of accounting and financial reporting for pension expenditures / expenses and related liabilities, assets, note disclosures, and required supplementary information in the financial reports of state and local government **employers**.

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**Who is responsible for GASBS No. 27?** **DOA is responsible** for reporting GASBS No. 27 financial statement, note disclosure, and required supplementary information requirements relating to VRS pension plans. Since employees of agencies are employees of the Commonwealth, net pension obligations of the VRS pension plans are reported in the participating funds only at the CAFR level and not in agency financial statements.

However, if the agency **issues separate audited GAAP based financial statements**, the agency **must include** the following pension related footnote disclosure:

*Employees of the (agency's name) are employees of the Commonwealth. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the (agency's name), has overall responsibility for contributions to these plans.*

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## Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued

### Fluctuation Analysis Guidelines and Materiality Scopes

#### Fluctuation analyses

Fluctuation analyses have been added to the financial statement template attachments (Attachments 8-11) to compare the current year's financial statement template activity to the prior year's financial statement template activity. Material variances must be explained. Due to the nature of the activity reported for Agency Funds (Attachment 12), no fluctuation analysis is required for those funds.

To determine the agency's materiality select the **base amount** as the larger of current year's total assets or total revenue as reported on the agency's financial statement template. Using the following table, find the row that contains the base amount. The corresponding amount in the "Materiality Scope" column is the materiality scope.

**Investigate and explain** any variances between current and prior year activity at the financial statement template line item level that are **greater than the materiality scope AND greater than or equal to 10%**. Disregard negative signs. Ensure the explanations are reviewed and approved by the appropriate individual. The reviewers should consider whether significant variances should be discussed with the Agency Head or designee.

<b>If the base amount for the current fiscal year is between:</b>	<b>Materiality Scope is:</b>
\$0 – \$50,000	\$1,000
\$50,001 – \$100,000	\$3,000
\$100,001 – \$500,000	\$4,000
\$500,001 – \$1,000,000	\$13,000
\$1,000,001 – \$5,000,000	\$18,000
\$5,000,001 – \$10,000,000	\$50,000
\$10,000,001 – \$50,000,000	\$80,000
\$50,000,001 – \$100,000,000	\$240,000
\$100,000,001 – \$300,000,000	\$365,000
\$300,000,001 – \$1,000,000,000	\$725,000
\$1,000,000,001 – \$3,000,000,000	\$1,775,000
\$3,000,000,001 – \$10,000,000,000	\$4,175,000
\$10,000,000,001 – \$30,000,000,000	\$10,475,000
\$30,000,000,001 – \$100,000,000,000	\$22,475,000

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## Additional Guidelines for Preparation of GAAP Basis (GASBS No. 34) Fund Financial Statement Templates, Continued

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### Fluctuation Analysis Guidelines and Materiality Scopes, Continued

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#### Fluctuation analysis example

Agency XXX has total assets of \$12,000,000 and total revenues of \$6,000,000. The base amount for determining materiality would be total assets of \$12,000,000. The materiality scope for the FY 2005 financial statement template would be \$80,000.

The following documents the variances that must be explained.

Line Item	FY 2005	FY 2004	\$ Variance	% Variance	Explain
Other Assets	\$800,000	\$1,000,000	(\$200,000)	(20%)	Yes
Education Expenditure	\$400,000	\$350,000	\$50,000	14%	No
Rights and Privileges Revenue	\$350,000	\$330,000	\$20,000	6%	No

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### Other Guidelines

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#### Interfund assets and liabilities

Distinguish between **“Due to / from Other Funds”** and **“Interfund Receivables / Payables.”**

**“Due to / from Other Funds”** are amounts owed by one fund to another within the same agency for goods sold or services rendered.

**“Interfund Receivables / Payables”** are short-term loans made by one fund to another within the same agency.

Within an agency’s financial statements, interfund receivables must equal interfund payables and due to other funds must equal due from other funds. Since only selected funds are reported via financial statement templates, the interfund balances **may** not net to zero for the funds reported.

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#### Internal use computer software costs

Include any capitalized costs for internal use software in the equipment line item. See CAPP Manual Topic 30305, "Software Purchased or Developed for Internal Use" for additional information. Any inquiries may be addressed to those listed in the **Questions** section in the Directive.

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